Intercorp Financial Services Inc.
Second Quarter 2020 Earnings

Lima, Peru, August 12, 2020. Intercorp Financial Services Inc. (Lima Stock Exchange/NYSE: IFS) announced today its unaudited results for the second quarter 2020. These results are reported on a consolidated basis under IFRS in nominal Peruvian soles.

Intercorp Financial Services: 2Q20 earnings affected by higher provisions at Interbank, partially offset by positive results from investments at Interseguro and Inteligo

- Strong liquidity and capital position across all subsidiaries
- Adjusted efficiency ratio at 29.9%, an improvement of 650 bps QoQ and 510 pbs YoY
- Activity recovering from COVID-19 lows
- Digital trends continue to support IFS' strategy

Interbank: 2Q20 earnings affected by higher provisions from COVID-19 and low activity during lockdown

- Loans outgrowing the system, market share up to 12.6% boosted by our participation in Reactiva Peru Program
- Strong growth in deposits drove market share up to 13.2%, cost of funds down 50 bps QoQ
- 8.5% CoR in 1H20, based on adjustments to the expected loss model
- Double-digit reduction in expenses due to cost containment measures

Interseguro: Solid quarter as a result of a recovery in investment portfolio

- Top line impact from the COVID-19 pandemic offset by lower claims, benefits and tight control of expenses
- Results from investments increased 50.0% QoQ and 6.5% YoY, with ROIP reaching 6.3%
- Continued as market leader in annuities with a 27.0% share YTD

Inteligo: Sound quarter with recovery from investments and fees

- Strong revenues in 2Q20, positively affected by M2M on the investment portfolio
- Fee generation remained solid despite economic turmoil in the region
- AUM and loans grew 7.2% and 3.2% QoQ, respectively
- Significant bottom-line recovery, with ROAE at 17.2% after a challenging first-quarter

Intercorp Financial Services

SUMMARY

Intercorp Financial Services' Statement of financial position					
S/ million				%chg	%chg
	06.30.19	03.31.20	06.30.20	06.30.20/ 03.31.20	06.30.20/ 06.30.19
Assets					
Cash and due from banks and inter-bank funds	10,823.0	11,733.3	15,156.3	29.2%	40.0%
Financial investments	17,835.5	18,634.9	21,198.7	13.8%	18.9%
Loans, net of unearned interest	35,647.0	38,556.6	42,061.8	9.1%	18.0%
Impairment allowance for loans	-1,411.9	-1,494.5	-2,731.3	82.8%	93.5%
Property, furniture and equipment, net	900.2	935.6	899.3	-3.9%	-0.1%
Other assets	3,378.4	3,445.7	5,195.1	50.8%	53.8%
Total assets	**67,172.2**	**71,811.6**	**81,779.8**	**13.9%**	**21.7%**
Liabilities and equity					
Deposits and obligations	35,373.8	37,568.9	44,144.7	17.5%	24.8%
Due to banks and correspondents and inter-bank funds	4,647.0	5,446.1	7,997.7	46.9%	72.1%
Bonds, notes and other obligations	6,606.2	6,973.4	7,495.4	7.5%	13.5%
Insurance contract liabilities	10,935.1	11,064.3	11,708.2	5.8%	7.1%
Other liabilities	2,167.0	2,212.6	2,596.9	17.4%	19.8%
Total liabilities	**59,729.0**	**63,265.3**	**73,943.0**	**16.9%**	**23.8%**
Equity, net					
Equity attributable to IFS' shareholders	7,401.2	8,499.6	7,795.0	-8.3%	5.3%
Non-controlling interest	42.0	46.7	41.8	-10.5%	-0.5%
Total equity, net	**7,443.2**	**8,546.3**	**7,836.8**	**-8.3%**	**5.3%**
Total liabilities and equity net	**67,172.2**	**71,811.6**	**81,779.8**	**13.9%**	**21.7%**

Intercorp Financial Services' net results reached S/ -457.3 million in 2Q20, compared to profits of S/ 144.9 million in 1Q20 and S/ 350.1 million in 2Q19.

It is worth mentioning that IFS's results were affected by (i) the reversion of payroll deduction loan provisions for S/ 38.8 million in 2Q19; (ii) the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in our banking segment for S/ 96.3 million after taxes in 2Q20; and (iii) the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic in 2Q20.

Intercorp Financial Services' P&L statement					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Interest and similar income	1,201.7	1,248.2	1,043.5	-16.4%	-13.2%
Interest and similar expenses	-345.4	-339.5	-309.7	-8.8%	-10.3%
Net interest and similar income	**856.4**	**908.7**	**733.8**	**-19.2%**	**-14.3%**
Impairment loss on loans, net of recoveries	-192.9	-312.6	-1,290.5	n.m.	n.m.
Recovery (loss) due to impairment of financial investments	0.8	-40.5	-11.9	-70.7%	n.m.
Net interest and similar income after impairment loss	**664.2**	**555.6**	**-568.6**	**n.m.**	**n.m.**
Fee income from financial services, net	222.7	220.3	142.6	-35.3%	-36.0%
Other income	129.4	39.3	187.3	n.m.	44.8%
Total premiums earned minus claims and benefits	-76.4	-59.4	-63.9	7.6%	-16.4%
Net Premiums	164.4	172.9	117.7	-31.9%	-28.4%
Adjustment of technical reserves	-67.9	-48.4	-2.8	-94.2%	-95.8%
Net claims and benefits incurred	-172.9	-183.9	-178.7	-2.8%	3.4%
Other expenses	-484.7	-511.2	-415.9	-18.6%	-14.2%
Income before translation result and income tax	**455.2**	**244.6**	**-718.5**	**n.m.**	**n.m.**
Translation result	11.9	-23.9	-5.7	n.m.	n.m.
Income tax	-117.0	-75.8	266.9	n.m.	n.m.
Profit for the period	**350.1**	**144.9**	**-457.3**	**n.m.**	**n.m.**
Adjusted profit for the period(1)	**350.1**	**144.9**	**-361.0**	**n.m.**	**n.m.**
Attributable to IFS' shareholders	**347.9**	**143.4**	**-453.5**	**n.m.**	**n.m.**
EPS	**3.14**	**1.24**	**n.m.**		
ROAE	**18.5%**	**6.6%**	**n.m.**		
ROAA	**2.1%**	**0.8%**	**n.m.**		
Efficiency ratio(1)	**35.0%**	**36.4%**	**29.9%**		

(1) Excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in our banking segment for S/ 136.7 million or S/ 96.3 million after taxes in 2Q20.

Quarter-on-quarter performance

The quarterly decrease in IFS' results was mainly due to higher impairment loss on loans at Interbank, in addition to reductions in net interest and similar income at all subsidiaries, especially at Interbank. These effects were partially compensated by a reversal of the income tax payment at Interbank, as well as by net gains on financial assets at fair value at both Interseguro and Inteligo, mostly related to positive mark-to-market valuations as a result of the recovery of financial markets. Furthermore, lower other expenses associated with cost containment measures across all subsidiaries also contributed to offset the QoQ reduction in bottom-line.

Net interest and similar income decreased 19.2% QoQ, mainly due to the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 136.7 million at Interbank. Additionally, a negative impact from lower inflation rates on Interseguro's fixed income portfolio and a reduction in interest income and dividend distributions from portfolio investments at Inteligo, also contributed to the quarterly reduction in net interest and similar income.

Impairment loss on loans grew more than four-fold QoQ, mainly explained by higher requirements in credit cards and cash loans, as well as in exposures to small-sized companies and corporate companies, all in relation to the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic.

Net fee income from financial services decreased 35.3% QoQ, mainly explained by reductions in commissions from credit card services, fees from maintenance and mailing of accounts, transfer fees and commissions on debit card services, and commissions from banking services, all at Interbank. Additionally, a lower product structuring activity, partially offset by an improvement in trading fees and higher safekeeping fees as a consequence of the improved market prices of assets, all at Inteligo, also contributed to the quarterly decrease in net fee income from financial services.

Other income increased QoQ mainly due to net gains on financial assets at fair value at both Interseguro and Inteligo, mostly related to positive mark-to-market valuations as a result of the recovery of financial markets. This effect was partially offset by reductions in participation from investments in associates and in net gain on sale of financial investments at Interbank.

Total premiums earned minus claims and benefits at Interseguro showed a quarterly decrease of S/ 4.5 million, explained by a S/ 55.2 million reduction in net premiums, partially offset by decreases of S/ 45.6 million in adjustment of technical reserves and S/ 5.2 million in net claims and benefits incurred.

Other expenses decreased 18.6% QoQ due to reductions in salaries and employee benefits at Interbank and Inteligo, administrative expenses at Interbank, and third-party commissions related to the lower sale of net premiums at Interseguro.

Finally, a reversal of the income tax payment at Interbank and a positive effect in translation result also contributed to offset the quarterly reduction in bottom-line.

Year-on-year performance

The annual decrease in IFS' results was mainly due to higher impairment loss on loans at Interbank, in addition to reductions in net interest and similar income, and net fee income, also at Interbank. Additionally, negative performances in translation result at Interseguro and Inteligo, also contributed to the YoY reduction in bottom-line. These effects were partially offset by a reversal of the income tax payment at Interbank, as well as by net gains on financial assets at fair value at both Interseguro and Inteligo, mostly related to positive mark-to-market valuations as a result of the recovery of financial markets. Additionally, higher net premiums earned at Interseguro and net gain on sale of financial investments at Interbank, also contributed to offset the annual decrease in IFS' results.

Net interest and similar income decreased 14.3% YoY, mainly due to the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 136.7 million at Interbank. Additionally, higher interest and similar expenses at Interseguro as well as lower spreads and returns on portfolio investments at Inteligo, also contributed to the annual performance in net interest and similar income.

Impairment loss on loans grew more than six-fold YoY, mainly explained by higher requirements in credit cards and cash loans, as well as in exposures to small-sized companies and corporate companies, all in relation to the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic. It is worth mentioning that a reversion of payroll deduction loan provisions for S/ 38.8 million in 2Q19, also contributed to the annual growth in provisions.

Net fee income from financial services decreased 36.0% YoY mainly due to lower commissions from credit card services, fees from maintenance and mailing of accounts, transfer fees and commissions on debit card services, and commissions from banking services, all at Interbank. These effects were partially offset by higher fund management fees and product spreads at Inteligo, amid increased appetite for investing or rebalancing portfolios.

Other income increased 44.8% YoY mainly due to net gains on financial assets at fair value at both Interseguro and Inteligo, mostly related to positive mark-to-market valuations as a result of the recovery of financial markets. Additionally, increases in net gain on sale of financial investments and in net gain on foreign exchange transactions and derivatives, both at Interbank, also contributed to the annual performance in other income.

Total premiums earned minus claims and benefits at Interseguro grew S/ 12.5 million explained by a S/ 65.1 million reduction in adjustment of technical reserves, partially offset by a S/ 46.7 million decrease in net premiums and a S/ 5.8 million growth in net claims and benefits incurred.

Other expenses decreased across all subsidiaries, as a result of cost containment measures implemented to offset the impacts of the COVID-19 pandemic on revenues.

Finally, a reversal of the income tax payment at Interbank, was partially offset by negative performances in translation result at Interseguro and Inteligo.

CONTRIBUTION BY SEGMENTS

The following table shows the contribution of Interbank, Interseguro and Inteligo to Intercorp Financial Services' net profit. The performance of each of the three segments is discussed in detail in the following sections.

Intercorp Financial Services' Profit by segment					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Interbank	300.2	221.5	-567.7	n.m.	n.m.
Interseguro	32.8	-21.6	58.5	n.m.	78.1%
Inteligo	33.4	-54.7	32.6	n.m.	-2.3%
Corporate and eliminations	-16.3	-0.4	19.3	n.m.	n.m.
IFS profit for the period	**350.1**	**144.9**	**-457.3**	**n.m.**	**n.m.**

MEASURES TAKEN TO FACE THE IMPACTS OF THE COVID-19 PANDEMIC

At Interbank, we put into effect a business continuity plan since early March to face the impacts of the COVID-19 pandemic in our operations, with actions involving different levels of our organization.

On one hand, our people are subject to specific protocols – including social distancing, hygiene habits, health surveillance, proper home office implementation and constant communication to ensure high employee engagement.

On the other hand, our clients have been able to request the rescheduling of their debts and postponement of their obligations under different schemes, some of them even without additional interest or fees applicable. As of June 30, 2020, 459 thousand clients requested to reschedule their loans, out of which approximately 441 thousand were retail clients and around 19 thousand, commercial clients. Loans that were subject to some kind of rescheduling represented S/ 12.7 billion or 31.4% of our total portfolio. Of these, S/ 8.5 billion came from retail banking (43.2% of total retail loans), while S/ 4.1 billion, from commercial banking (20.1% of total commercial loans).

In addition, we have had a relevant participation in the Reactiva Peru Program, which is intended to ensure the continuity of payments of the economy, by originating commercial loans with different levels of guarantees from the government (80%, 90%, 95% and 98%). These loans have tenors of up to 36 months and grace periods of up to 12 months. As of June 30, 2020, S/ 3,832.6 million of our loan portfolio were disbursed under this program.

Regarding our operations, we have focused on ensuring the provision of the required tools for all key IT employees, monitoring critical suppliers' operations and cash supply, while reinforcing our IT and cybersecurity network systems.

Our distribution channels have played a crucial role addressing the crisis. Our financial stores have managed flexible operating hours and our ATM have operated at full capacity. We increased the number of operators in our call center and created special landing pages on our website to communicate with our clients and general public, also enabling loan rescheduling requests and sale of products.

Regarding our liquidity and solvency, we have maintained an active involvement in the Central Bank's daily operations and have used and renewed external lines of credit with correspondent banks abroad. Moreover, we reduced our 2019 earnings' payout ratio, from the usual 45% to 25%, and agreed to fully capitalize 1Q20 earnings. Finally, in early July 2020, we issued a US$300 million subordinated bond due in 2030 with a call option in 2025. All of this aimed to strengthen our capital ratios and face the current market volatility.

Our management team is focused on ensuring the company's operations as well as on reinforcing its liquidity and capital position, while continuing to take actions to help our retail and commercial clients who have been affected by this crisis.

SUMMARY

Interbank's net results were S/ -567.7 million in 2Q20, compared to profits of S/ 221.5 million in 1Q20 and S/ 300.2 million in 2Q19. The quarterly performance was mainly attributed to a S/ 977.9 million increase in impairment loss on loans and a S/ 155.0 million reduction in net interest and similar income, in addition to a S/ 77.4 million decrease in net fee income from financial services. These effects were partially offset by a reversal of the income tax payment and a S/ 79.5 million decrease in other expenses.

The annual result was mainly due to an increase of S/ 1,097.5 million in impairment loss on loans and to reductions of S/ 125.0 million in net interest and similar income and S/ 87.6 million in net fee income. These effects were partially offset by a reversal of the income tax payment and a S/ 59.5 million decrease in other expenses.

It is worth mentioning that the increase in impairment loss on loans was related to the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic, while the reduction in net interest and similar income, to the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic.

Banking Segment's P&L Statement

S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Interest and similar income	1,019.1	1,037.1	853.1	-17.7%	-16.3%
Interest and similar expense	-314.9	-302.8	-273.8	-9.6%	-13.0%
Net interest and similar income	**704.3**	**734.3**	**579.3**	**-21.1%**	**-17.7%**
Impairment loss on loans, net of recoveries	-193.0	-312.6	-1,290.5	n.m.	n.m.
Recovery (loss) due to impairment of financial investments	0.1	-0.2	0.2	n.m.	n.m.
Net interest and similar income after impairment loss	**511.4**	**421.5**	**-711.1**	**n.m.**	**n.m.**
Fee income from financial services, net	200.6	190.4	113.0	-40.6%	-43.7%
Other income	95.3	109.7	102.2	-6.9%	7.2%
Other expenses	-395.8	-415.8	-336.3	-19.1%	-15.0%
Income before translation result and income tax	**411.5**	**305.8**	**-832.2**	**n.m.**	**n.m.**
Translation result	-3.7	-2.9	1.1	n.m.	n.m.
Income tax	-107.6	-81.4	263.3	n.m.	n.m.
Profit for the period	**300.2**	**221.5**	**-567.7**	**n.m.**	**n.m.**
ROAE	**21.7%**	**13.8%**	**n.m.**		
Efficiency ratio(1)	**39.1%**	**38.8%**	**35.3%**		
NIM(1)	**5.8%**	**5.6%**	**5.0%**		
NIM on loans(1)	**8.9%**	**8.6%**	**8.3%**		

(1) Excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in our banking segment for S/ 136.7 million or S/ 96.3 million after taxes in 2Q20.

INTEREST-EARNING ASSETS

Interbank's interest-earning assets reached S/ 59,103.7 million as of June 30, 2020, an increase of 14.1% QoQ, and 22.9% YoY.

The quarterly growth in interest-earning assets was attributed to increases of 34.3% in cash and due from banks and inter-bank funds, 25.7% in financial investments, and 6.3% in loans. On one hand, growth in cash and due from banks and inter-bank funds was due to higher deposits at the Central Bank, partially offset by lower restricted funds and inter-bank funds. On the other hand, the increase in financial investments was mainly a result of higher balances of sovereign bonds, global bonds and corporate bonds from financial institutions, partially compensated by reductions in Central Bank Certificates of Deposits (CDBCR) and corporate bonds from non-financial institutions.

The YoY increase in interest-earning assets was attributed to growth of 44.7% in financial investments, 36.5% in cash and due from banks and inter-bank funds, and 15.1% in loans. The increase in financial investments was mainly due to higher volumes of sovereign bonds, while growth in cash and due from banks and inter-bank funds, to higher restricted funds and deposits at the Central Bank.

Interest-earning assets					
S/ million	06.30.19	03.31.20	06.30.20	%chg 06.30.20/ 03.31.20	%chg 06.30.20/ 06.30.19
Cash and due from banks and inter-bank funds	10,131.0	10,295.8	13,830.4	34.3%	36.5%
Financial investments	5,254.5	6,052.4	7,605.2	25.7%	44.7%
Loans	32,717.3	35,451.0	37,668.1	6.3%	15.1%
Total interest-earning assets	**48,102.7**	**51,799.2**	**59,103.7**	**14.1%**	**22.9%**

Loan portfolio					
S/ million	06.30.19	03.31.20	06.30.20	%chg 06.30.20/ 03.31.20	%chg 06.30.20/ 06.30.19
Performing loans					
Retail	17,958.8	19,313.4	18,706.1	-3.1%	4.2%
Commercial	14,790.5	16,106.0	20,221.2	25.6%	36.7%
Total performing loans	**32,749.3**	**35,419.4**	**38,927.4**	**9.9%**	**18.9%**
Restructured and refinanced loans	211.1	258.8	258.6	0.0%	22.5%
Past due loans	906.1	1,004.2	977.6	-2.6%	7.9%
Total gross loans	**33,866.5**	**36,682.3**	**40,163.7**	**9.5%**	**18.6%**
Add (less)					
Accrued and deferred interest	262.5	263.1	235.6	-10.4%	-10.2%
Impairment allowance for loans	-1,411.7	-1,494.4	-2,731.2	82.8%	93.5%
Total direct loans, net	**32,717.3**	**35,451.0**	**37,668.1**	**6.3%**	**15.1%**

The QoQ and YoY increase in the loan portfolio was mostly explained by disbursements of S/ 3,832.6 million related to the origination of commercial loans under the Reactiva Peru Program.

Performing loans increased 9.9% QoQ due to 25.6% growth in commercial loans, partially offset by a 3.1% reduction in retail loans. Excluding the effect of the Reactiva Peru Program, performing loans would have decreased 0.9% QoQ, while commercial loans would have grown 1.8% QoQ.

The quarterly increase in commercial loans was mainly explained by higher short and medium-term lending, mostly to corporate and medium-sized companies, as well as by growth in trade finance loans in the corporate segment. As mentioned above, these increases were driven by the bank’s participation in the Reactiva Peru Program.

The QoQ decrease in retail loans was due to reductions of 8.9% in credit cards and 1.9% in other consumer loans, while mortgages showed a slight growth of 0.5%. Reduction in other consumer loans was mainly explained by lower payroll deduction loans, cash loans and vehicle loans.

Performing loans grew 18.9% YoY explained by increases of 36.7% in commercial loans and 4.2% in retail loans. Excluding the effect of the Reactiva Peru Program, performing loans and commercial loans would have grown 7.2% and 10.8% YoY, respectively.

The annual increase in commercial loans was mainly explained by higher trade finance loans for corporate and medium-sized companies, in addition to higher short and medium-term lending to medium-sized companies.

The YoY growth in retail loans was mainly due to increases of 7.9% in mortgages and 5.7% in other consumer loans, partially compensated by a 2.1% reduction in credit cards. Growth in mortgages was due to a higher demand in both traditional and MiVivienda products, while the increase in other consumer loans was a result of higher cash loans and payroll deduction loans.

It is worth mentioning that, as of June 30, 2020, and in line with the measures implemented to help our customers to overcome the impacts from the COVID-19 pandemic, 459 thousand clients requested to reschedule their loans, out of which approximately 441 thousand were retail clients and around 19 thousand, commercial clients. Loans that were subject to some kind of rescheduling represented S/ 12.7 billion or 31.4% of our total portfolio. Of these, S/ 8.5 billion came from retail banking (43.2% of total retail loans), while S/ 4.1 billion, from commercial banking (20.1% of total commercial loans).

Breakdown of retail loans					
S/ million				%chg	%chg
	06.30.19	03.31.20	06.30.20	06.30.20/ 03.31.20	06.30.20/ 06.30.19
Consumer loans:					
Credit cards	5,396.9	5,800.4	5,285.0	-8.9%	-2.1%
Other consumer	6,016.6	6,486.1	6,360.5	-1.9%	5.7%
Total consumer loans	**11,413.6**	**12,286.5**	**11,645.5**	**-5.2%**	**2.0%**
Mortgages	6,545.3	7,027.0	7,060.6	0.5%	7.9%
Total retail loans	**17,958.8**	**19,313.4**	**18,706.1**	**-3.1%**	**4.2%**

FUNDING STRUCTURE

Funding structure					
S/ million				%chg	%chg
	06.30.19	03.31.20	06.30.20	06.30.20/ 03.31.20	06.30.20/ 06.30.19
Deposits and obligations	33,112.4	35,062.1	41,449.4	18.2%	25.2%
Due to banks and correspondents and inter-bank funds	4,312.9	5,087.7	7,681.6	51.0%	78.1%
Bonds, notes and other obligations	5,569.9	5,832.3	6,336.9	8.7%	13.8%
Total	**42,995.3**	**45,982.1**	**55,467.9**	**20.6%**	**29.0%**
% of funding					
Deposits and obligations	77.0%	76.2%	74.7%		
Due to banks and correspondents and inter-bank funds	10.0%	11.1%	13.9%		
Bonds, notes and other obligations	13.0%	12.7%	11.4%		

Interbank’s funding base surged in 2Q20 due to a S/ 2,533.6 million inflow of long-term funding from the Central Bank, associated with the bank’s active involvement in the Central Bank’s auctions of funds for the Reactiva Peru Program. In addition to this, Interbank’s deposits grew strongly, resulting in an important market share gain as of June 30, 2020.

The bank’s total funding base increased 20.6% QoQ, above the performance of interest-earning assets. This was explained by growth of 51.0% in due to banks and correspondents and inter-bank funds, 18.2% in deposits and obligations, and 8.7% in bonds, notes and other obligations. Excluding the effect of the Reactiva Peru Program’s funds, the bank’s total funding base would have increased 15.1% QoQ, while due to banks and correspondents and inter-bank funds, 1.2%.

The quarterly increase in due to banks and correspondents and inter-bank funds was the result of higher long-term funding from the Central Bank, associated with the bank’s participation in the auctions of funds for the Reactiva Peru Program. This effect was partially offset by lower funding from correspondent banks abroad and COFIDE.

The QoQ increase in deposits and obligations was mainly due to increases of 38.2% in institutional deposits, 18.5% in commercial deposits and 12.0% in retail deposits.

The quarterly growth increase in bonds, notes and other obligations was mainly attributable to the placement in the international market of a US$ 300 million subordinated bond in June 2020, partially offset by the execution of an optional redemption of the prevailing hybrid bonds “8.50% Junior Subordinated Notes due 2070” for US$ 200 million in April 2020. Additionally, a 2.9% depreciation of the exchange rate with respect to 1Q20, also contributed to the higher balance of bonds.

The bank’s total funding base increased 29.0% YoY, above the annual growth in interest-earning assets, and was explained by increases of 78.1% in due to banks and correspondents and inter-bank funds, 25.2% in deposits and obligations, and 13.8% in bonds, notes and other obligations. Excluding the effect of the Reactiva Peru Program’s funds, the bank’s total funding base would have increased 23.1% YoY, while due to banks and correspondents and inter-bank funds, 19.4%.

The YoY increase in due to banks and correspondents and inter-bank funds was the result of higher long-term funding from the Central Bank, associated with the bank’s participation in the auctions of funds for the Reactiva Peru Program. Higher funding from correspondent banks abroad and COFIDE also contributed to the growth in due to banks and correspondents and inter-bank funds when compared to 2Q19.

The annual growth in deposits and obligations was mainly explained by increases of 26.6% in retail deposits and 24.5% in both institutional and commercial deposits.

The YoY increase in bonds, notes and other obligations was mainly attributable to two bond placements in the international market in September 2019, for S/ 312 million and US$ 400 million, both due in October 2026; in addition to the placement in the international market of a US$ 300 million subordinated bond in June 2020. This growth was partially compensated by (i) the execution of an optional redemption of the prevailing "5.75% Senior Notes due 2020" corporate bonds between October and November of 2019; (ii) the execution of a call option in July 2019 for a US$ 30 million subordinated bond in the local market; and (iii) the execution of an optional redemption of the prevailing hybrid bonds "8.50% Junior Subordinated Notes due 2070" for US$ 200 million in April 2020. It is worth mentioning that a 7.6% depreciation of the exchange rate with respect to 2Q19, also contributed to the higher balance of bonds.

As of June 30, 2020, the proportion of deposits and obligations to total funding was 74.7%, lower than the 77.0% reported as of June 30, 2019. Likewise, the proportion of institutional deposits to total deposits slightly decreased from 17.4% as of June 30, 2019 to 17.3% as of June 30, 2020.

Breakdown of deposits					
S/ million				%chg	%chg
	06.30.19	03.31.20	06.30.20	06.30.20/ 03.31.20	06.30.20/ 06.30.19
By customer service:					
Retail	14,878.8	16,816.6	18,834.4	12.0%	26.6%
Commercial	12,099.2	12,710.5	15,067.7	18.5%	24.5%
Institutional	5,768.9	5,193.8	7,179.8	38.2%	24.5%
Other	365.5	341.2	367.6	7.7%	0.6%
Total	**33,112.4**	**35,062.1**	**41,449.4**	**18.2%**	**25.2%**
By type:					
Demand	10,342.2	10,874.2	12,660.8	16.4%	22.4%
Savings	10,750.8	12,580.6	15,232.8	21.1%	41.7%
Time	12,013.5	11,592.6	13,551.2	16.9%	12.8%
Other	6.0	14.8	4.7	-68.2%	-22.1%
Total	**33,112.4**	**35,062.1**	**41,449.4**	**18.2%**	**25.2%**

NET INTEREST AND SIMILAR INCOME

Net interest and similar income					
S/ million				%chg	%chg
	2Q19	1Q20	2Q20	QoQ	YoY
Interest and similar income	1,019.1	1,037.1	853.1	-17.7%	-16.3%
Interest and similar expense	-314.9	-302.8	-273.8	-9.6%	-13.0%
Net interest and similar income	**704.3**	**734.3**	**579.3**	**-21.1%**	**-17.7%**
NIM(1)	**5.8%**	**5.6%**	**5.0%**	**-60 bps**	**-80 bps**

(1) Excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 136.7 million in 2Q20. Including this effect, NIM was 4.0% in such period.

Interest and similar income					
S/ million				%chg	%chg
	2Q19	1Q20	2Q20	QoQ	YoY
Interest and similar income					
Due from banks and inter-bank funds	29.3	15.9	2.0	-87.2%	-93.1%
Financial investments	58.9	51.7	57.7	11.6%	-2.1%
Loans	930.9	969.4	793.4	-18.2%	-14.8%
Total Interest and similar income	**1,019.1**	**1,037.1**	**853.1**	**-17.7%**	**-16.3%**
Average interest-earning assets	48,899.5	52,823.1	57,564.2	9.0%	17.7%
Average yield on assets (annualized)[1]	8.3%	7.9%	6.9%	-100 bps	-140 bps

(1) Excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 136.7 million in 2Q20. Including this effect, the average yield on assets was 5.9% in such period.

Interest and similar expense					
S/ million				%chg	%chg
	2Q19	1Q20	2Q20	QoQ	YoY
Interest and similar expense					
Deposits and obligations	-173.9	-174.8	-145.6	-16.7%	-16.3%
Due to banks and correspondents and inter-bank funds	-43.0	-38.1	-47.6	25.0%	10.7%
Bonds, notes and other obligations	-98.0	-89.9	-80.6	-10.3%	-17.7%
Total Interest and similar expense	**-314.9**	**-302.8**	**-273.8**	**-9.6%**	**-13.0%**
Average interest-bearing liabilities	42,340.3	45,598.4	50,725.0	11.2%	19.8%
Average cost of funding (annualized)	3.0%	2.7%	2.2%	-50 bps	-80 bps

QoQ Performance

Net interest and similar income decreased 21.1% QoQ due to a 17.7% reduction in interest and similar income, partially offset by a 9.6% decrease in interest and similar expense. However, excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 136.7 million in 2Q20, interest and similar income and net interest and similar income would have decreased 4.6% and 2.5% QoQ, respectively.

The lower interest and similar income was due to reductions of 87.2% in interest on due from banks and inter-bank funds, and 18.2% in interest on loans, partially compensated by an 11.6% increase in interest on financial investments.

Interest on due from banks and inter-bank funds decreased S/ 13.9 million, or 87.2% QoQ, explained by a 50 basis point reduction in the nominal average rate, partially offset by 19.6% growth in the average volume. On one hand, the decrease in the nominal average rate was due to lower returns on inter-bank funds and on deposits and reserve funds at the Central Bank, in line with the reduction in the reference rate. On the other hand, the increase in the average volume was due to higher deposits at the Central Bank, partially compensated by lower average balances of reserve funds at the Central Bank and inter-bank funds, also associated with the easing of monetary policy.

Interest on loans decreased S/ 176.0 million, or 18.2% QoQ, as the result of a 230 basis point reduction in the average yield, partially compensated by 4.7% growth in the average loan portfolio. However, excluding the previously mentioned one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic, interest on loans would have decreased 4.1% QoQ.

The lower average rate on loans, from 10.5% in 1Q20 to 8.2% in 2Q20, was explained by yield reductions of 330 basis points in retail loans and 60 basis points in commercial loans. The decrease in retail loans was mainly explained by lower rates on credit cards, mostly related to the previously mentioned one-off impact, as well as by decreases in the average yields on other consumer loans and mortgages. In the commercial portfolio, rates decreased on all types of loans. It is worth mentioning that, as a result of the loan rescheduling carried out as part of the measures implemented to deal with the COVID-19 pandemic, a portion of the interest on loans to be recorded between April and June 2020 was rescheduled, affecting the average yield on loans in 2Q20. Additionally, the incidence of the low-return loans offered to a number of commercial clients as part of the Reactiva Peru Program also had an impact on the average rate on loans.

The higher average volume of loans was attributed to an 11.8% increase in commercial loans, partially offset by a 1.1% decrease in retail loans. In the commercial portfolio, the higher average volume was mainly due to 24.8% growth in short and medium-term loans, attributed to the disbursement of loans under the Reactiva Peru Program. In the retail portfolio, average volumes decreased mainly due to a 4.8% reduction in credit cards, partially offset by a 0.9% increase in mortgages. The average balance of payroll deduction loans remained relatively stable QoQ.

Interest on financial investments increased S/ 6.0 million, or 11.6% QoQ, due to 17.5% growth in the average volume, partially compensated by a 20 basis point reduction in the average yield. The increase in the average volume was a consequence of higher investments in sovereign bonds, global bonds and corporate bonds from financial institutions, partially offset by lower balances of CDBCR and corporate bonds from non-financial institutions. The lower average yield was due to decreases in returns on corporate bonds from non-financial institutions, sovereign bonds and corporate bonds from financial institutions, partially compensated by higher returns on CDBCR and global bonds.

The nominal average yield on interest-earning assets decreased 200 basis points QoQ, from 7.9% in 1Q20 to 5.9% in 2Q20, as a consequence of the lower returns on all components of interest-earning assets. However, excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 2Q20, the nominal average yield on interest-earning assets would have been 6.9% in such period.

The lower interest and similar expense was due to reductions of 16.7% in interest on deposits and obligations, and 10.3% on bonds, notes and other obligations, partially compensated by a 25.0% increase in interest on due to banks and correspondents.

The quarterly decrease in interest on deposits and obligations was due to a 50 basis point reduction in the average cost, partially compensated by 8.3% growth in the average volume. The decrease in the average cost was due to lower rates paid to institutional, commercial and retail deposits, associated with the low interest rate environment. The higher average volume was explained by growth in all segments of deposits. By currency, average balances of soles-denominated deposits grew 9.8% while average dollar-denominated deposits increased 5.4%.

The reduction in interest on bonds, notes and other obligations was mainly due to the execution of an optional redemption of the “8.50% Junior Subordinated Notes due 2070” in April 2020, in addition to the maturity of Certificates of Deposit for S/ 150 million in March 2020.

Interest on due to banks and correspondents grew S/ 9.5 million, or 25.0% QoQ, due to 43.2% growth in the average volume, partially offset by a 40 basis point reduction in the average cost. On one hand, the increase in the average volume was mostly attributed to higher funding from the Central Bank, related to the bank’s participation in the Reactiva Peru Program. On the other hand, the lower average cost was due to reductions in rates paid to inter-bank funds and funding provided by COFIDE, partially offset by higher rates on funding provided by correspondent banks abroad.

The average cost of funding decreased 50 basis points QoQ, from 2.7% in 1Q20 to 2.2% in 2Q20, in line with the lower implicit cost of all interest-bearing liabilities.

As a result of the above, net interest margin was 4.0% in 2Q20, 160 basis points lower than the 5.6% reported in 1Q20. However, excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 2Q20, net interest margin would have been 5.0% in such period.

<u>YoY Performance</u>

Net interest and similar income decreased 17.7% YoY due to a 16.3% reduction in interest and similar income, partially offset by a 13.0% decrease in interest and similar expense. However, excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 2Q20, interest and similar income would have decreased 2.9% YoY, while net interest and similar income would have increased 1.7% YoY.

The lower interest and similar income was due to reductions of 93.1% in interest on due from banks and inter-bank funds, 14.8% in interest on loans and 2.1% in interest on financial investments.

Interest on due from banks and inter-bank funds decreased S/ 27.3 million, or 93.1% YoY, explained by a 110 basis point reduction in the average yield, partially compensated by 24.7% growth in the average volume. On one hand, the decrease in the nominal average rate was mainly related to lower returns on deposits and reserve funds at the Central Bank, as well as to a lower rate on inter-bank funds. On the other hand, the increase in the average volume was explained by higher deposits and reserve funds at the Central Bank, partially offset by a lower average balance of inter-bank funds.

Interest on loans decreased S/ 137.5 million, or 14.8% YoY, due to a 280 basis point reduction in the average yield, partially offset by a 14.3% growth in the average volume. However, excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 136.7 million in 2Q20, interest on loans would have remained stable YoY.

The annual decrease in the average rate on loans, from 11.0% in 2Q19 to 8.2% in 2Q20, was due to reductions of 350 basis points in retail loans and 150 basis points in commercial loans. The decrease in retail loans was mainly explained by lower rates on credit cards, mostly related to the previously mentioned one-off impact, as well as by decreases in the average yields on other consumer loans and mortgages. In the commercial portfolio, rates decreased on all types of loans. It is worth mentioning that, as a result of the loan rescheduling carried out as part of the measures implemented to deal with the COVID-19 pandemic, a portion of the interest on loans to be recorded between April and June 2020 was rescheduled, affecting the average yield on loans in 2Q20. Additionally, the incidence of the low-return loans offered to a number of commercial clients as part of the Reactiva Peru Program also had an impact on the average rate on loans.

The higher average volume of loans was attributed to growth of 21.4% in commercial loans and 8.4% in retail loans. In the commercial portfolio, the higher average volume was mainly due to increses of 29.9% in short and medium-term loans, and 6.3% in trade finance loans, attributed to the disbursement of loans under the Reactiva Peru Program. In the retail portfolio, average volumes grew mainly due to increases of 9.5% in mortgages, 5.9% in credit cards and 5.0% in payroll deduction loans.

Interest on financial investments decreased 2.1% YoY due to a 100 basis point reduction in the average yield, partially offset by 26.9% growth in the average volume. The decrease in the nominal average rate, from 4.4% in 2Q19 to 3.4% in 2Q20, was mainly a result of higher income from dividends received in 2Q19 for shares owned on IFS, which was not repeated in 2Q20. The increase in the average volume was mainly the result of higher average balances of sovereign bonds.

The nominal average yield on interest-earning assets decreased 240 basis points YoY, from 8.3% in 2Q19 to 5.9% in 2Q20, in line with the lower returns on all components of interest-earning assets. However, excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 2Q20, the nominal average yield on interest-earning assets would have been 6.9% in such period.

The lower interest and similar expense was due to reductions of 17.7% in interest on bonds, notes and other obligations, 16.3% in interest on deposits and other obligations, partially offset by a 10.7% increase on interest on due to banks and correspondents.

The reduction in interest on bonds, notes and other obligations was the result of higher efficiencies in this component of interest-bearing liabilities, associated with liability management transactions executed throughout the last 12 months. Among these, the execution of a call option for local subordinated bonds in July 2019 and the redemption of international hybrid bonds in April 2020 contributed to a lower interest expense, although partially compensated by the placement of a new international subordinated bond in June 2020. Additionally, the maturity of Certificates of Deposit for S/ 150 million in March 2020 also contributed to the lower interest expense of this component of the funding base.

Interest on deposits and obligations decreased S/ 28.3 million, or 16.3% YoY, explained by a 60 basis point reduction in the average cost, from 2.1% in 2Q19 to 1.5% in 2Q20, partially offset by 16.5% growth in the average volume. The lower average cost was due to reductions in rates paid to commercial, institutional and retail deposits. The higher average volume was explained by growth in retail, institutional and commercial deposits. By currency, average balances of soles-denominated deposits grew 28.6% while average dollar-denominated deposits decreased 2.6%.

The S/ 4.6 million, or 10.7% YoY, increase in interest on due to banks and correspondents was the result of 63.2% growth in the average volume, partially compensated by a 140 basis point reduction in the average cost, from 4.4% in 2Q19 to 3.0% in 2Q20. The increase in the average volume was due to higher funding provided by the Central Bank, related to the bank's participation in the Reactiva Peru Program, while the reduction in the average cost, to lower rates paid to inter-bank funds and the rest of due to banks.

The average cost of funding decreased 80 basis points YoY, from 3.0% in 2Q19 to 2.2% in 2Q20, in line with the lower implicit cost of all interest-bearing liabilities.

As a result of the above, net interest margin was 4.0% in 2Q20, 180 basis points lower than the 5.8% reported in 2Q19. However, excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 2Q20, net interest margin would have been 5.0% in such period.

IMPAIRMENT LOSS ON LOANS, NET OF RECOVERIES

Impairment loss on loans, net of recoveries increased more than four-fold QoQ and six-fold YoY. The quarterly and annual performances were mainly explained by higher requirements in credit cards and cash loans, as well as in exposures to small-sized companies and corporate companies, all in relation to the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic.

It is worth noting that the YoY growth was also explained by the S/ 38.8 million reversion of provisions for payroll deduction loans registered in 2Q19, as the result of an update in the credit parameters given the improvement in the behavior of clients in such quarter.

As a result of the above, the annualized ratio of impairment loss on loans to average loans was 13.4% in 2Q20, higher than the 3.4% reported in 1Q20 and the 2.3% registered in 2Q19. However, excluding the previously mentioned reversion of provisions in 2Q19, the annualized ratio of impairment loss on loans to average loans would have resulted in 2.8% in such period.

Impairment loss on loans, net of recoveries					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Impairment loss on loans, net of recoveries	-193.0	-312.6	-1,290.5	n.m.	n.m.
Impairment loss on loans/average gross loans [1]	2.8%	3.4%	13.4%	n.m.	n.m.
NPL ratio (at end of period)	2.9%	2.7%	3.4%	70 bps	50 bps
NPL coverage ratio (at end of period)	127.9%	136.1%	182.7%	n.m.	n.m.
Impairment allowance for loans	1,411.7	1,494.4	2,731.2	82.8%	93.5%

(1) Excluding the reversion of impairment loss on loans for payroll deduction loans for S/ 38.8 million in 2Q19. Including this effect, cost of risk was 2.3% in such period.

The NPL ratio grew 70 basis points QoQ and 50 basis points YoY, to 3.4%, mainly due to increases in stage 3 and refinanced exposures in credit cards and mortgages. However, including the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic, the NPL ratio would have resulted in 6.2% as of June 30, 2020. The higher NPL ratio when considering the adjustments of the expected loss models would result from the reclassification of a larger portion of the bank's total exposure to stage 3.

Furthermore, the NPL coverage ratio was 182.7% as of June 30, 2020, higher than the 136.1% reported as of March 31, 2020, and the 127.9% registered as of June 30, 2019. NPL coverage ratio in credit cards was 295.9% as of June 30, 2020. It is worth noting that, including the previously mentioned adjustment of the bank's expected loss models, the NPL coverage ratio would have resulted in 100.0% as of June 30, 2020.

FEE INCOME FROM FINANCIAL SERVICES, NET

Net fee income from financial services decreased S/ 77.4 million QoQ, or 40.6%, mainly explained by reductions of S/ 42.3 million in commissions from credit card services, S/ 22.1 million in fees from maintenance and mailing of accounts, transfer fees and commissions on debit card services, and S/ 20.7 million in commissions from banking services.

Net fee income from financial services decreased S/ 87.6 million YoY, or 43.7%, mainly due to reductions of S/ 52.5 million in commissions from credit card services, S/ 26.1 million in fees from maintenance and mailing of accounts, transfer fees and commissions on debit card services, and S/ 11.7 million in commissions from banking services.

It is worth mentioning that overall fee origination weakened in 2Q20 as a result of the national lockdown that affected most of the commercial activities in the Peruvian economy.

Fee income from financial services, net					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Income					
Commissions from credit card services	101.3	91.1	48.8	-46.4%	-51.8%
Commissions from banking services	77.1	86.1	65.4	-24.0%	-15.1%
Maintenance and mailing of accounts, transfer fees and commissions on debit card services	60.1	56.1	34.0	-39.4%	-43.4%
Fees from indirect loans	14.3	12.9	11.4	-11.8%	-20.2%
Collection services	10.1	10.0	8.4	-15.4%	-16.5%
Other	9.9	8.4	4.0	-52.6%	-60.0%
Total income	**272.8**	**264.5**	**172.0**	**-35.0%**	**-36.9%**
Expenses					
Insurance	-23.9	-25.4	-24.8	-2.4%	3.8%
Fees paid to foreign banks	-4.4	-3.2	-3.0	-8.7%	-33.1%
Other	-43.9	-45.5	-31.2	-31.3%	-28.8%
Total expenses	**-72.2**	**-74.1**	**-59.0**	**-20.4%**	**-18.3%**
Fee income from financial services, net	**200.6**	**190.4**	**113.0**	**-40.6%**	**-43.7%**

OTHER INCOME

Other income decreased S/ 7.5 million QoQ, mainly explained by reductions of S/ 9.3 million in participation from investments in associates, accounted as other, and S/ 7.2 million in net gain on sale of financial investments, partially offset by a S/ 10.2 million increase in net gain on foreign exchange transactions and derivatives.

Other income grew S/ 6.9 million YoY mainly explained by increases of S/ 11.9 million in net gain on sale of financial investments and S/ 6.5 million in net gain on foreign exchange transactions and derivatives, partially offset by a reduction of S/ 7.9 million in participation from investments in associates.

Other income					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Net gain on foreign exchange transactions and on financial assets at fair value through profit or loss	63.6	59.9	70.1 (1)	17.0%	10.1%
Net gain on sale of financial investments	18.4	37.5	30.3	-19.1%	64.7%
Other	13.3	12.4	1.8	-85.1%	-86.1%
Total other income	**95.3**	**109.7**	**102.2**	**-6.9%**	**7.2%**

(1) Includes S/ 110.1 million of net gain on foreign exchange transactions and S/ -40.0 million of net gain (loss) on financial assets at fair value though profit or loss (derivatives).

OTHER EXPENSES

Other expenses decreased S/ 79.5 million QoQ, or 19.1%, and S/ 59.5 million YoY, or 15.0%.

The quarterly and annual decreases were mainly explained by reductions in nearly all expense lines, as a result of cost containment measures implemented to offset the impacts of the COVID-19 pandemic on revenues.

The efficiency ratio was 41.4% in 2Q20, above the 38.8% reported in 1Q20 and the 39.1% registered in 2Q19. However, excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 2Q20, the efficiency ratio would have been 35.3% in such period, which represents an improvement compared to 1Q20 and 2Q19.

Other expenses					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Salaries and employee benefits	-163.6	-168.6	-127.4	-24.5%	-22.2%
Administrative expenses	-172.4	-175.4	-144.8	-17.4%	-16.0%
Depreciation and amortization	-54.8	-57.4	-56.8	-1.2%	3.7%
Other	-5.0	-14.3	-7.4	-48.4%	46.9%
Total other expenses	**-395.8**	**-415.8**	**-336.3**	**-19.1%**	**-15.0%**
Efficiency ratio (1)	**39.1%**	**38.8%**	**35.3%**	**-350 bps**	**-380 bps**

(1) Excluding the one-off impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 136.7 million in 2Q20. Including this effect, the efficiency ratio was 41.4% in such period.

REGULATORY CAPITAL

The ratio of regulatory capital to risk-weighted assets (RWA) was 14.7% as of June 30, 2020, lower than the 16.1% reported both as of March 31, 2020, and as of June 30, 2019.

In 2Q20, regulatory capital decreased 6.7% QoQ, mainly explained by the execution of an optional redemption of the prevailing hybrid bonds “8.50% Junior Subordinated Notes due 2070” for US$ 200 million in April, 2020. Meanwhile, RWA grew 2.5% QoQ mainly due to higher capital requirements for credit and market risk.

The annual reduction in the capital ratio was due to a 13.8% growth in RWA, partially offset by a 3.9% increase in regulatory capital. The YoY increase in RWA was mostly attributed to loan growth and the higher risk weights applied to intangible assets by disposition of the SBS, with impact on the bank's increasing digital investments. The annual increase in regulatory capital was mainly a result of the addition of S/ 852.0 million in capital, reserves and earnings with capitalization agreement during the last twelve months, as well as the lower deduction in regulatory capital due to the sale of IFS' shares in July 2019 as part of IFS' IPO in NYSE. These effects were partially compensated by the execution of optional redemptions of: (i) US$ 30 million subordinated bonds in July 2019, and (ii) US$ 200 million hybrid bonds in April 2020.

It is worth mentioning that the "4.00% Subordinated Notes due 2030" for US$300 million placed in June 2020 and issued in July 2020, will account as regulatory capital beginning in July 2020, coincidentally with its issue date. On a proforma basis, when considering the US$ 300 million bond as regulatory capital, total capital ratio would increase to 16.7% as of June 30, 2020.

As of June 30, 2020, Interbank's capital ratio of 14.7% was significantly higher than its risk-adjusted minimum capital ratio requirement, established at 10.7%. The minimum regulatory capital ratio requirement was 10.0%, while the additional capital requirement for Interbank was 0.7% as of June 30, 2020. Furthermore, Core Equity Tier 1 (CET1) as of June 30, 2020 increased 50 basis points YoY, to 11.1%, mainly as a result of the strengthened capitalization and the lower deduction in regulatory capital due to the sale of IFS' shares in July 2019 as part of IFS' IPO in NYSE, and despite the 13.8% growth in RWA in the comparable period.

Regulatory capital					
S/ million	06.30.19	03.31.20	06.30.20	%chg 06.30.20/ 03.31.20	%chg 06.30.20/ 06.30.19
Tier I capital	5,447.8	6,218.8	5,932.7	-4.6%	8.9%
Tier II capital	1,976.9	2,045.2	1,780.3	-13.0%	-9.9%
Total regulatory capital	7,424.8	8,264.0	7,712.9	-6.7%	3.9%
Risk-weighted assets	46,186.2	51,265.3	52,552.2	2.5%	13.8%
Total capital ratio	**16.1%**	**16.1%**	**14.7%**	**-140 bps**	**-140 bps**
Tier I capital / risk-weighted assets	**11.8%**	**12.1%**	**11.3%**	**-80 bps**	**-50 bps**
CET1	**10.6%**	**12.0%**	**11.1%**	**-90 bps**	**50 bps**

Interseguro

MEASURES TAKEN TO FACE THE IMPACTS OF THE COVID-19 PANDEMIC

Interseguro had a fast and efficient reaction to the COVID-19 pandemic, deploying several measures on its operations, customers and people, in order to face the impacts of the crisis.

Looking to safeguard the integrity and health of its people, Interseguro implemented a home office scheme for its entire administrative staff, while suspending all the activities of its sales force. The company's sales force was granted with a leave license from mid-March to mid-May and has gradually resumed its commercial activities. Currently the company has 100% of its operational sales force working through remote assistance and digital channels. Likewise, Interseguro's customer service offices initially opened with a limited capacity but, as of now, most of the customer service force is working 100% remotely. Certainly, the company's digital channels are ready to take a leading role in the recovery and adaptation process of the new normality.

Finally, Interseguro is closely monitoring the collection of life premiums and offering rescheduling of payments to life insurance policyholders, while advancing pension payments to annuity clients, in order to assure their liquidity and security needs.

SUMMARY

Interseguro's profits reached S/ 58.5 million in 2Q20, an increase of S/ 80.1 million QoQ and S/ 25.7 million YoY.

The quarterly growth was mainly explained by increases of S/ 46.3 million in other income and S/ 35.0 million in recovery due to impairment of financial investments, as well as by a S/ 16.7 million reduction in other expenses and a S/ 5.1 million improvement in translation result. These factors were partially offset by decreases of S/ 18.3 million in net interest and similar income, and S/ 4.5 million in total premiums earned minus claims and benefits.

The annual increase in net profit was mainly a result of growth of S/ 24.9 million in other income and S/ 12.5 million in total premiums earned minus claims and benefits, in addition to a S/ 18.7 million decrease in other expenses. These effects were partially offset by a negative performance in translation result of S/ 16.1 million and a S/ 8.4 million decrease in net interest and similar income.

Insurance Segment's P&L Statement					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Interest and similar income	152.2	167.9	150.5	-10.4%	-1.1%
Interest and similar expenses	-15.3	-21.2	-22.1	4.3%	44.2%
Net Interest and similar income	**136.8**	**146.7**	**128.4**	**-12.5%**	**-6.2%**
Recovery (loss) due to impairment of financial investments	0.4	-40.1	-5.1	-87.3%	n.m.
Net Interest and similar income after impairment loss	**137.2**	**106.6**	**123.3**	**15.7%**	**-10.2%**
Fee income from financial services, net	-1.0	-1.0	-1.3	24.3%	34.1%
Other income	38.7	17.3	63.6	n.m.	64.3%
Total premiums earned minus claims and benefits	-76.4	-59.4	-63.9	7.6%	-16.4%
Net premiums	164.4	172.9	117.7	-31.9%	-28.4%
Adjustment of technical reserves	-67.9	-48.4	-2.8	-94.2%	-95.8%
Net claims and benefits incurred	-172.9	-183.9	-178.7	-2.8%	3.4%
Other expenses	-74.4	-72.4	-55.7	-23.0%	-25.1%
Income before translation result and income tax	**24.2**	**-9.0**	**65.9**	**n.m.**	**n.m.**
Translation result	8.6	-12.6	-7.5	-40.6%	n.m.
Income tax	-	-	-	n.m.	n.m.
Profit for the period	**32.8**	**-21.6**	**58.5**	**n.m.**	**78.1%**
Attributable to non-controlling interest	-	-	-	n.m.	n.m.
Profit attributable to shareholders	**32.8**	**-21.6**	**58.5**	**n.m.**	**78.1%**
ROAE	**13.6%**	**n.m.**	**46.3%**		
Efficiency ratio	**14.2%**	**n.m.**	**10.6%**		

RESULTS FROM INVESTMENTS

Results from Investments (1)					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Interest and similar income	152.2	167.9	150.5	-10.4%	-1.1%
Interest and similar expenses	-5.0	-10.0	-10.9	8.9%	n.m.
Net interest and similar income	**147.1**	**157.9**	**139.6**	**-11.6%**	**-5.1%**
Recovery (loss) due to impairment of financial investments	0.4	-40.1	-5.1	-87.3%	n.m.
Net Interest and similar income after impairment loss	**147.5**	**117.8**	**134.5**	**14.2%**	**-8.8%**
Net gain (loss) on sale of financial investments	14.3	23.9	34.2	43.0%	n.m.
Net gain (loss) on financial assets at fair value through profit or loss	-9.7	-31.6	22.5	n.m.	n.m.
Rental income	11.4	9.1	9.7	7.6%	-14.8%
Gain on sale of investment property	-1.6	-	-	n.m.	n.m.
Valuation gain (loss) from investment property	20.7	11.5	-5.0	n.m.	n.m.
Other(1)	-3.3	-3.4	-5.0	47.6%	52.5%
Other income	**31.8**	**9.5**	**56.5**	**n.m.**	**77.3%**
Results from investments	**179.4**	**127.3**	**191.0**	**50.0%**	**6.5%**

(1) Only includes transactions related to investments.

NET INTEREST AND SIMILAR INCOME

Net interest and similar income related to investments was S/ 139.6 million in 2Q20, a decrease of S/ 18.3 million, or 11.6%, QoQ and S/ 7.5 million, or 5.1%, YoY.

On one hand, the quarterly result was mainly explained by a S/ 17.4 million decrease in interest and similar income, mostly attributed to a lower inflation rate that had a negative impact on returns of the fixed income portfolio. On the other hand, the annual performance was mainly explained by a S/ 5.9 million growth in interest and similar expenses.

RECOVERY (LOSS) DUE TO IMPAIRMENT OF FINANCIAL INVESTMENTS

Loss due to impairment of financial investments was S/ 5.1 million in 2Q20, compared to a loss of S/ 40.1 million in 1Q20 and a recovery of S/ 0.4 million in 2Q19.

The quarterly improvement was mainly due to an additional provision for impairment on a fixed income investment that was downgraded in relation to the COVID-19 pandemic in 1Q20, which was not repeated in 2Q20.

OTHER INCOME

Other income related to investments was S/ 56.5 million in 2Q20, an increase of S/ 47.0 million QoQ and S/ 24.7 million YoY.

The quarterly and annual performances were mainly explained by higher net gain (loss) on financial assets at fair value, mostly related to positive mark-to-market valuations as a result of the recovery of financial markets, as well as to an increase in net gain (loss) on sale of financial investments. These factors were partially offset by a negative effect in valuation gain from investment property related to the impact of the COVID-19 pandemic in the real estate market.

TOTAL PREMIUMS EARNED MINUS CLAIMS AND BENEFITS

Total Premiums Earned Minus Claims And Benefits					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Net premiums	164.4	172.9	117.7	-31.9%	-28.4%
Adjustment of technical reserves	-67.9	-48.4	-2.8	-94.2%	-95.8%
Net claims and benefits incurred	-172.9	-183.9	-178.7	-2.8%	3.4%
Total premiums earned minus claims and benefits	**-76.4**	**-59.4**	**-63.9**	**7.6%**	**-16.4%**

Total premiums earned minus claims and benefits were S/ -63.9 million in 2Q20, a decrease of S/ 4.5 million QoQ, but an increase of S/ 12.5 million YoY.

The quarterly performance was the result of a reduction of S/ 55.2 million in net premiums, partially offset by decreases of S/ 45.6 million in adjustment of technical reserves and S/ 5.2 million in net claims and benefits incurred.

The annual increase was explained by a S/ 65.1 million reduction in adjustment of technical reserves, partially offset by a S/ 46.7 million decrease in net premiums and a S/ 5.8 million growth in net claims and benefits incurred.

NET PREMIUMS

Net Premiums by Business Line					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Annuities	75.7	72.8	40.4	-44.5%	-46.7%
D&S	0.4	0.1	0.0	-64.3%	-90.7%
Individual Life	32.1	32.6	29.5	-9.6%	-8.1%
Retail Insurance	56.2	67.4	47.8	-29.1%	-14.9%
Net Premiums	**164.4**	**172.9**	**117.7**	**-31.9%**	**-28.4%**

Net premiums were S/ 117.7 million in 2Q20, a decrease of S/ 55.2 million, or 31.9%, QoQ and S/ 46.7 million, or 28.4%, YoY.

The quarterly result was mainly due to decreases of S/ 32.4 million in annuities, S/ 19.6 million in retail insurance and S/ 3.1 million in individual life premiums.

The annual performance in net premiums was mainly due to reductions of S/ 35.3 million in annuities, S/ 8.4 million in retail insurance and S/ 2.6 million in individual life premiums.

It is worth mentioning that the overall activity in net premiums was affected by the national lockdown implemented to face the COVID-19 pandemic, which mostly impacted the annuity and retail insurance segments of the insurance market.

ADJUSTMENT OF TECHNICAL RESERVES

Adjustment of Technical Reserves by Business Line					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Annuities	-44.3	-44.0	17.9	n.m.	n.m.
Individual Life	-21.3	7.2	-26.3	n.m.	23.6%
Retail Insurance	-2.4	-11.6	5.6	n.m.	n.m.
Adjustment of technical reserves	**-67.9**	**-48.4**	**-2.8**	**-94.2%**	**-95.8%**

Adjustment of technical reserves was S/ 2.8 million in 2Q20, a decrease of S/ 45.6 million QoQ and S/ 65.1 million YoY.

The quarterly and annual reductions were mainly explained by a release of technical reserves for annuities, mostly related to (i) lower technical reserves for inflation-indexed annuities due to the decrease in inflation rate, (ii) the effect of lower sales, and (iii) a higher mortality rate resulting from the COVID-19 pandemic.

Furthermore, the quarterly decrease was partially compensated by higher technical reserves for individual life, in turn associated with a higher profitability of flex life products, which are linked to equity investments on behalf of clients. This effect was partially offset by a S/ 17.2 million reduction in retail insurance, related to a one-time provision expense in card protection insurance to assess the potential increase of unemployment as a consequence of the COVID-19 pandemic in 1Q20, which was not repeated in 2Q20.

Additionally, the annual reduction in adjustment of technical reserves was also explained by an S/ 8.0 million release in retail insurance, partially offset by a S/ 5.0 million increase in individual life.

NET CLAIMS AND BENEFITS INCURRED

Net Claims and Benefits Incurred by Business Line					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Annuities	-154.9	-161.4	-161.2	-0.2%	4.1%
D&S	0.9	-0.4	0.1	n.m.	-91.1%
Individual Life	-2.6	-1.5	-3.4	n.m.	31.6%
Retail Insurance	-16.4	-20.6	-14.2	-30.8%	-13.0%
Net claims and benefits incurred	**-172.9**	**-183.9**	**-178.7**	**-2.8%**	**3.4%**

Net claims and benefits incurred reached S/ 178.7 million in 2Q20, a S/ 5.2 million decrease QoQ, but a S/ 5.8 million growth YoY.

The quarterly reduction was mainly explained by a S/ 6.4 million decrease in retail insurance, mostly related to lower claims in Mandatory Traffic Accident Insurance (SOAT), as a result of the national lockdown implemented to face the COVID-19 pandemic.

The annual increase in net claims and benefits incurred was explained by a S/ 6.3 million increase in annuity benefits, partially offset by a S/ 2.2 million decrease in retail insurance claims.

OTHER EXPENSES

Other Expenses					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Salaries and employee benefits	-18.1	-18.9	-17.1	-9.4%	-5.5%
Administrative expenses	-13.4	-9.2	-8.7	-4.8%	-34.7%
Depreciation and amortization	-6.9	-6.4	-6.4	0.8%	-6.2%
Expenses related to rental income	0.3	-1.4	0.8	n.m.	n.m.
Other	-36.3	-36.5	-24.3	-33.6%	-33.2%
Other expenses	**-74.4**	**-72.4**	**-55.7**	**-23.0%**	**-25.1%**

Other expenses decreased S/ 16.7 million QoQ, or 23.0%, and S/ 18.7 million YoY, or 25.1%.

The quarterly reduction was mainly due to decreases of S/ 12.2 million other expenses, such as third-party commissions related to the lower sale of net premiums, as well as S/ 2.2 million lower net expenses related to rental income, and S/ 1.8 million lower salaries and employee benefits.

The annual result in other expenses was mainly due to decreases of S/ 12.0 million in other expenses, S/ 4.7 million in administrative expenses, related to cost containment measures implemented to deal with the COVID-19 pandemic, and S/ 1.0 million in salaries and employee benefits.

Inteligo

MEASURES TAKEN TO FACE THE IMPACTS OF THE COVID-19 PANDEMIC

Inteligo deployed several strategies across the organization to cope with the impact of the COVID-19 pandemic, both on its operations and on its people.

Inteligo Bank, Inteligo SAB and Interfondos have been 100% operational under a home-office scheme since quarantine measures were enacted by the governments of Peru, Panama and The Bahamas in March 2020. We have been able to remain close to our clients by using technology to ensure a frequent communication and an agile execution.

All banking, investment advisory and execution services remain available in compliance with social-distancing, hygiene habits and constant health-monitoring as a rule, and we aim to safeguard the wellbeing of our clients and people alike.

Furthermore, within the current context, improved liquidity levels and strong capital adequacy ratios are a business priority. As of June 30, 2020, Inteligo Bank held up to 21.3% of its assets in cash and equivalents, while such ratio for Interfondos stood at 15.8%. Additionally, Inteligo Bank’s capital adequacy ratio stood at 21.1% as of June 30, 2020, compared to a minimum requirement of 8.0%.

SUMMARY

Inteligo’s net profit in 2Q20 was S/ 32.6 million, a S/ 87.3 increase QoQ, and a S/ 0.8 million or 2.3% decrease YoY.

The main driver of the quarterly growth in profits was the contribution of other income, which showed strong gains in 2Q20, mainly associated with positive mark-to-market conditions in Inteligo’s proprietary portfolio. Meanwhile, reductions in net interest and similar income, and in net fee income from financial services were more than offset by savings in other expenses.

Furthermore, Inteligo’s assets under management regained their growth trend, increasing 7.2% QoQ and 4.5% YoY as of June 30, 2020.

Consequently, Inteligo’s ROAE was 17.2% in 2Q20, reversing from the negative figure in 1Q20 and above the 16.8% reported in 2Q19.

Wealth Management Segment's P&L Statement					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Interest and similar income	38.9	41.1	33.3	-19.0%	-14.6%
Interest and similar expenses	-14.4	-15.5	-12.5	-19.5%	-13.3%
Net interest and similar income	**24.5**	**25.5**	**20.8**	**-18.7%**	**-15.3%**
Impairment loss on loans, net of recoveries	0.0	0.0	0.0	n.m.	n.m.
Recovery (loss) due to impairment of financial investments	0.3	-0.2	-6.9	n.m.	n.m.
Net interest and similar income after impairment loss	**24.8**	**25.3**	**13.8**	**-45.5%**	**-44.4%**
Fee income from financial services, net	37.1	43.0	40.4	-6.0%	9.0%
Other income	0.5	-85.8	10.3	n.m.	n.m.
Other expenses	-28.7	-34.9	-26.6	-23.7%	-7.2%
Income before translation result and income tax	**33.8**	**-52.3**	**37.9**	**n.m.**	**12.2%**
Translation result	1.6	-3.0	-2.6	-12.7%	n.m.
Income tax	-2.1	0.7	-2.7	n.m.	30.6%
Profit for the period	**33.4**	**-54.7**	**32.6**	**n.m.**	**-2.3%**
ROAE	**16.8%**	**n.m.**	**17.2%**		
Efficiency ratio	**45.9%**	**n.m.**	**37.1%**		

ASSETS UNDER MANAGEMENT & DEPOSITS

AUM reached S/ 19,302.0 million as of June 30, 2020, an increase of S/ 1,296.2 million, or 7.2%, QoQ and S/ 822.6 million, or 4.5%, YoY, mostly due to strengthened mark-to-market valuations due to the appreciation of our client assets, as well as to the execution of adequate client prospection and conversion strategies throughout the year.

Client deposits reached S/ 3,189.9 million as of June 30, 2020, a growth of S/ 303.1 million, or 10.5%, QoQ and S/ 700.3 million, or 28.1%, YoY. The increase in client deposits was mainly associated with a preference for liquidity and an increased risk-aversion given the market volatility following the COVID-19 pandemic.

NET INTEREST AND SIMILAR INCOME

Net interest and similar income					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Interest and similar income					
Due from banks and inter-bank funds	2.1	2.7	1.7	-36.6%	-17.5%
Financial Investments	18.8	21.2	15.2	-28.4%	-19.4%
Loans	18.1	17.2	16.4	-4.7%	-9.2%
Total interest and similar income	**38.9**	**41.1**	**33.3**	**-19.0%**	**-14.6%**
Interest and similar expenses					
Deposits and obligations	-11.3	-13.7	-11.8	-14.0%	5.0%
Due to banks and correspondents	-3.2	-1.8	-0.7	-61.7%	-78.2%
Total interest and similar expenses	**-14.4**	**-15.5**	**-12.5**	**-19.5%**	**-13.3%**
Net interest and similar income	**24.5**	**25.5**	**20.8**	**-18.7%**	**-15.3%**

Inteligo' s net interest and similar income was S/ 20.8 million in 2Q20, a S/ 4.8 million, or 18.7% decrease when compared to 1Q20, explained by a reduction in interest income and dividend distributions from portfolio investments, as well as by lower interest generated by inter-bank funds during the quarter. Efficiencies in the cost of external lines of credit allowed for a certain degree of improvement in the overall figure.

Net interest and similar income decreased S/ 3.8 million or 15.3% YoY. This reduction was due to a contraction in the spread between the loan rate and the deposit rate, in addition to lower average returns on financial investments and inter-bank funds.

FEE INCOME FROM FINANCIAL SERVICES

Fee income from financial services, net					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Income					
Brokerage and custody services	3.4	5.7	2.8	-51.2%	-17.4%
Funds management	34.3	37.7	38.0	0.9%	10.6%
Total income	**37.7**	**43.4**	**40.8**	**-6.0%**	**8.1%**
Expenses					
Brokerage and custody services	-0.4	-0.1	-0.1	3.9%	-69.0%
Others	-0.2	-0.2	-0.2	-9.7%	30.5%
Total expenses	**-0.6**	**-0.4**	**-0.3**	**-4.6%**	**-43.2%**
Fee income from financial services, net	**37.1**	**43.0**	**40.4**	**-6.0%**	**9.0%**

Net fee income from financial services was S/ 40.4 million in 2Q20, a decrease of S/ 2.6 million, or 6.0% when compared to the previous quarter. The reduction in fee income for the quarter was mainly explained by lower product structuring activity, partially offset by an improvement in trading fees and higher safekeeping fees as a consequence of the improved market prices of assets.

On a YoY basis, net fee income from financial services increased S/ 3.3 million, or 9.0%, mainly explained by higher fund management fees and product spreads, amid increased appetite for investing or rebalancing portfolios.

OTHER INCOME

Other income					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Net gain on sale of financial investments	13.5	-33.1	-7.4	-77.7%	n.m.
Net trading gain (loss)	-13.1	-51.2	18.8	n.m.	n.m.
Other	0.1	-1.4	-1.1	-24.1%	n.m.
Total other income	**0.5**	**-85.8**	**10.3**	**n.m.**	**n.m.**

Inteligo’s other income (loss) reached S/ 10.3 million in 2Q20, an increase of S/ 96.1 million QoQ and S/ 9.8 million YoY, attributable to the effect of positive mark-to-market valuations albeit the occurrence of some realized losses on Inteligo’s proprietary portfolio during 2Q20.

OTHER EXPENSES

Other expenses					
S/ million	2Q19	1Q20	2Q20	%chg QoQ	%chg YoY
Salaries and employee benefits	-15.2	-20.9	-14.8	-28.9%	-2.2%
Administrative expenses	-9.5	-10.0	-8.1	-18.9%	-14.3%
Depreciation and amortization	-3.9	-4.0	-3.5	-11.4%	-8.6%
Other	-0.2	0.0	-0.1	n.m.	n.m.
Total other expenses	**-28.7**	**-34.9**	**-26.6**	**-23.7%**	**-7.2%**
Efficiency ratio	**45.9%**	**n.m.**	**37.1%**		

Other expenses reached S/ 26.6 million in 2Q20, a decrease of S/ 8.3 million, or 23.7% QoQ, and S/ 2.1 million, or 7.2% YoY. The result was mainly related to a reduction in salaries and employee benefits stemming from expense reduction and efficiency initiatives at Inteligo.